

VZCZCXRO9961  
RR RUEHDE  
DE RUEHMS #0045/01 0191001  
ZNY CCCCC ZZH  
R 191001Z JAN 09  
FM AMEMBASSY MUSCAT  
TO RUEHC/SECSTATE WASHDC 0017  
INFO GULF COOPERATION COUNCIL COLLECTIVE  
RHEBAAA/DEPT OF ENERGY WASHINGTON DC  
RUEAIIA/CIA WASHINGTON DC  
RUEHMS/AMEMBASSY MUSCAT

C O N F I D E N T I A L SECTION 01 OF 02 MUSCAT 000045

SIPDIS

E.O. 12958: DECL: 2019-01-19  
TAGS: [EPET](#) [ENRG](#) [PREL](#) [IR](#) [MU](#)  
SUBJECT: OMANI OIL & GAS MINISTER: HIGHER VOLUMES, LOWER PRICES IN  
2009; IRAN GAS DEAL STILL PROBLEMATIC

CLASSIFIED BY: Gary A. Grappo, Ambassador; REASON: 1.4(B), (D)

Summary

-----

¶1. (C) In a meeting with the Ambassador January 17, Minister of  
Oil and Gas Mohammed bin Hamad al-Rumhi:

-- reported that oil production would edge past 800,000 barrels per  
day (bpd) in 2009, thanks largely to significant volume increases  
from the Occidental Petroleum-operated al-Mukhaizna field;

-- expressed skepticism that Oman would be able to reach a gas deal  
with Iran before Iran's presidential election later this spring;  
and

-- reviewed Oman's complicated internal pricing scheme for crude  
and refined product, which has engendered debate among the Council  
of Ministers (COM) economic team. End Summary.

Good Production, Lower Prices in 2009

-----

¶2. (C) Al-Rumhi reported that Oman was budgeting production  
volumes averaging 805,000 bpd in 2009, versus an average of 750,000  
in 2008. Almost the entire increase will come from boosted  
production in the al-Mukhaizna field operated by Occidental. Oxy  
had started 2008 at less than 30,000 bpd at al-Mukhaizna but  
managed to improve considerably by the end of the year. Production  
at the field this year, the minister predicted, would top 80,000  
bpd, accounting for the lion's share of Oman's year-on-year  
production gain. Al-Rumhi said that Petroleum Development of Oman  
(PDO), Oman's largest oil producer, would also see increases in  
2009, although much more modest and coming mostly from condensates  
produced from gas.

¶3. (C) The minister was less specific about Oman's gas production  
for the coming year. He reported that the government was looking to  
sign several gas exploration/development contracts in the coming  
weeks, including one with U.S.-based Harvest International. He  
also expressed optimism about the recent work of both British  
Petroleum and British Gas, and said the former had already begun  
drilling operations at several wells and that BG was expected to  
commence drilling shortly.

¶4. (C) Addressing OPEC's recent decision to lower production  
volumes, al-Rumhi repeated familiar Omani policy. Oman's export  
volumes were relatively insignificant and effectively irrelevant to  
global markets, he said. Oman, therefore, would continue to seek  
to maximize production and export of its oil and gas.

Still Skeptical about Oman-Iran Gas Deal

-----

¶5. (C) Minister al-Rumhi said that Oman's negotiations with Iran  
over Omani access to and development of Iran's Kish gas field had  
progressed little in the last six-nine months. He speculated that  
an agreement was highly unlikely before Iran's presidential  
election later this spring and, in any event, would remain highly  
problematic given Iranian obstinacy over gas pricing. "They can't  
make a decision under the present leadership," he said, as Iranian  
internal deliberations appeared deadlocked among several competing  
ministries and offices.

¶6. (C) In the latest round of discussions, the minister said that  
Oman had proposed a pricing regime linked to oil prices. The  
Iranians requested a floor price be set for the gas; Oman countered  
with a proposal to fix a ceiling as well, which the Iranians

MUSCAT 00000045 002 OF 002

rejected (while insisting on keeping a floor price). The Omanis  
left empty handed and frustrated, said al-Rumhi, "and not the first  
time, either." Although pricing occupied most of the discussion,  
share level of the gas off-take was also raised. Again, the  
Iranians could not reach agreement internally on their level of  
off-take. "They've got a lot going on internally, and we'll not  
make progress until they decide what they themselves want," he  
complained.

¶7. (C) Nevertheless, asserted al-Rumhi, Iranian gas for Oman was

"necessary and inevitable." Oman simply doesn't have what it needs to meet its own internal consumption requirements, given economic diversification plans. His recommendation to his COM colleagues is continue to pursue Iranian gas after the presidential election and once secured, take several of Oman's gas fields off line and keep them in reserve. "It's our only option to avoid running out."

#### Subsidies, Government Accounting & Inside "Omani Baseball"

-----  
18. (C) In his discussion of oil process, al-Rumhi explained that Oman's oil revenues are calculated on the basis of the 60-day forward price for its oil on the Dubai Mercantile Exchange. At present, he said, that price was \$45/barrel, exactly the price at which Oman has budgeted oil revenue for 2009. (Comment: Oman's Minister of National Economy, Ahmed Macki, told the Ambassador two weeks ago that the COM struggled for several months over the price to set for the 2009 budget, arguing ad nauseam over both higher and lower prices. In the end, he said, he told the ministers, "I really have no idea, and \$45 is as good as any other." End comment.)

19. (C) This created several problems for the government when it came to pricing petroleum products inside Oman. The refinery must buy the crude at the 60-day forward price and sell to the oil marketing firms at the current market price for finished product. At times when current prices are less than future, such as now, the refinery and al-Rumhi's ministry suffer a loss, albeit a paper one. (Note: The government subsidizes the retail price of gasoline and diesel in Oman. Regular, unleaded gasoline sells for about \$1.20/gallon. End note.) The minister acknowledged that this is largely an accounting matter but argued that it impacted his ministry's budget.

110. (C) The larger question, he averred, was the whole matter of subsidizing fuel, not to mention electricity, water and a long list of other products and services. "We won't be able to get a handle on consumption until prices reflect the real, i.e., market, value of the product," he argued passionately. "But we just can't seem to do it." The COM has debated the question endlessly and generally agreed with the basic contention that prices should reflect the market. But action invariably stalled when someone, like the Civil Service minister, would ask when Oman's largely government-employed labor market would be "paid their market wages." The government is not prepared to do it (raise wages), he said, "so, we're stuck."  
GRAPPO

To view the entire SMART message, go to URL [http://repository.state.sgov.gov/\\_layouts/OSS\\_SearchResults.aspx?k=messageid:75d13b0c-3d33-4496-8f](http://repository.state.sgov.gov/_layouts/OSS_SearchResults.aspx?k=messageid:75d13b0c-3d33-4496-8f)